FITCH RATES IDAHO'S $500MM TANS 'F1+'

Fitch Ratings-New York-04 June 2015: Fitch Ratings has assigned an 'F1+' rating to the following State of Idaho tax anticipation notes (TANs):

--$500 million series 2015.

The notes will be sold via negotiation on or about June 9.

In addition, Fitch affirms the following ratings:

--Implied general obligation (GO) rating of the State of Idaho at 'AA+';
--State building revenue bonds of the Idaho State Building Authority (ISBA) at 'AA'.

The Rating Outlook for the Long-term ratings is Stable.

SECURITY

The TANs are valid and binding obligations secured by general tax revenue to be received in the fourth quarter of the fiscal year, the treasurer's covenant to transfer sufficient borrowable resources to the note repayment fund, and a pledge of the faith and credit of the state.

KEY RATING DRIVERS

SOLID COVERAGE OF NOTES: The notes benefit from solid coverage by a first claim on Idaho's general fund revenues collected in the fourth quarter of the fiscal year. Coverage is broadened by available borrowable resources well in excess of note borrowing.

NOTEHOLDER PROTECTIONS: The notes bear the faith and credit of the state, with holdbacks employed if necessary to ensure note payment.

CONSERVATIVE FINANCES: Idaho follows conservative budget practices and has demonstrated a willingness to use broad balancing actions in response to economic and revenue weakness.

GROWING RESERVES: The state has a practice of setting aside sizable reserves, including to respond to economic and revenue weakness. The state has prioritized rebuilding reserves during the current economic expansion, and continued gains in reserve balances are expected near term.

LOW LIABILITY BURDEN: Debt levels are low and pensions are well funded.

ECONOMIC GROWTH ACCELERATING: After several years of slower economic gains following the last recession, which was especially severe in the state, the pace of economic growth has accelerated to a pace ahead of national averages.

RATING SENSITIVITIES

CHANGE IN BUDGETARY MANAGEMENT: The ratings assume a continuation of the state's prudent approach to managing its budget, including prioritizing reserve balances.

CREDIT PROFILE

The 'F1+' rating on the $500 million series 2015 notes reflects the security provided by an irrevocable pledge of taxes and other revenues received by the state in the fourth quarter of fiscal 2016, borrowable resources available for note repayment if needed, and the state's faith and credit pledge. Fourth-quarter fiscal 2016 revenues are projected to total $1.027 billion, providing almost 2.1 times (x) coverage of note principal. Borrowable resources from outside of the general fund are forecast at nearly $3.5 billion in June 2016, a level that provides almost 7x coverage of note principal. Additionally, the state has a practice of reducing expenditures as necessary through holdbacks to ensure sufficient funds for note repayment and budget balance.

AMPLE RESOURCES TO COVER TANS

All general fund revenues and receipts are deposited into the note repayment account beginning in the fourth quarter of the fiscal year until the balance is sufficient to repay the notes. Once deposits are made, they cannot be withdrawn or loaned back to the general fund. The state treasurer may make deposits to the note repayment account earlier than scheduled from excess general fund resources. The treasurer has consistently done so, resulting in the note repayment fund being fully funded by the end of April; the $475 million in notes issued for fiscal 2015 cash needs were fully covered by April 23, 2015.

Fiscal 2016 is projected to end on June 30, 2016 with a general fund cash balance of just under $9 million following note repayment, below the $54.5 million forecast ending balance for fiscal 2015. Borrowable balances, consisting of other balances held in the state treasury in multiple funds outside the general fund, are forecast to average nearly $3.4 billion through the fiscal year, above the $3.35 billion projected at last year's note sale.

The state's longstanding practice of annual borrowing for cash flow needs is driven by the timing of disbursements for schools. Two rounds of legislation, in 2007 and 2014, accelerated state aid for schools to the early months of the fiscal year, initially as part of a plan to provide property tax relief.

Under current statute, 53% of fiscal 2016 school operating transfers will be disbursed by the end of August, and 71% will be disbursed by the end of November, enlarging cash needs. By contrast, general fund cash receipts are stronger in the second half of the fiscal year, reflecting in part the timing of individual income tax payments in April.

The largest two mid-month imbalances during fiscal 2016 are forecast at $848 million, in August 2015, and $828 million, in November 2015. Cash needs will be covered by the $500 million note principal as well as other internal borrowing from the state's ample borrowable cash resources. Repayment of other internal borrowing is subordinate to repayment of the notes.

STRONG OVERALL CREDIT QUALITY

Fitch's long-term implied GO rating, at 'AA+', reflects the general credit quality of the state. Although Idaho may issue GO bonds, no such bonds are outstanding and no issuance is expected. The 'AA' long-term rating on SBA building revenue bonds reflects the pledge of repayment from annual state appropriations.

Idaho's credit strengths include broad powers to ensure fiscal balance, a low liability burden and a growing economy. Although the last recession was more severe in Idaho than in the nation as a whole, state economic and fiscal performance has rebounded, enabling the state to rebuild balances that were depleted in the downturn. Conservative budgeting practices include the use of holdbacks when necessary to reduce spending mid-year.

EXPANDED RESERVE BALANCES

Idaho's reserve practices are a credit strength. The state has a history of building up reserve balances during periods of economic and revenue expansion, including in its budget stabilization fund, economic recovery reserve, public education stabilization fund and higher education stabilization fund. Balances in these four funds, which totaled nearly $319 million as of fiscal 2008 (10.9% of general fund revenues), fell to a low of $11.3 million by fiscal 2011 as the state responded to recessionary fiscal weakness.

The state has prioritized rebuilding balances since then, both with direct appropriations at budget adoption and through the deposit of unexpected surplus balances at fiscal year-end. Total reserve balances reached $237 million in fiscal 2014 (8.4% of general fund revenues), and are forecast at nearly $336 million by fiscal 2016 year-end (a solid 10.8% of general fund revenues), following planned deposits in fiscal 2015 and 2016. These balances could be materially higher given recent revenue overperformance, in Fitch's view.

SOLID BUDGET PERFORMANCE

Actual general fund revenue performance during fiscal 2015 continues to outpace the state's forecasts from earlier in the fiscal year. General fund tax revenues in fiscal 2015 were expected to rise 6.2% on a cash basis over the fiscal 2014 estimated level at the time the fiscal 2015 budget was adopted, to just below $3 billion. The January 2015 forecast revision lowered expected fiscal 2015 tax revenues slightly (with lower corporate and sales outlooks largely offset by higher individual income). Growth was revised downward to 5.1%, reflecting both the revenue forecast changes and the higher actual tax revenues collected in fiscal 2014.

General fund revenue collections year to date through April are almost $92 million ahead of the January 2015 forecast, rising 9.3% from the prior year. Recent overperformance has not been incorporated into the forecast.

As of the fiscal 2016 adopted budget, the general fund is expected to end fiscal 2015 with a cash balance of $54.5 million, $12 million of which is obligated for encumbrances and reappropriations. The 2015 legislature also enacted statutory adjustments to set aside unexpected surplus funds in the state's budgetary stabilization fund and for transportation needs.

The fiscal 2016 adopted budget assumes continued steady economic and revenue gains. On a cash basis, general fund tax revenues are forecast to rise a robust 5.6%, to nearly $3.1 billion. General fund appropriations rise 6.6%, to $3.2 billion. Appropriations for K-12 schools, which represent nearly 47% of spending, rise 7.4%, due in part to teacher compensation changes; appropriations also include state employee raises and expected lump sum deposits to state reserves, including one to cover a non-recurring fiscal 2017 payroll timing need. Outside of the general fund, the state elevated registration fees and gasoline taxes to expand resources for transportation in order to help address growth needs. The fiscal year is expected to end with a cash balance of $9 million.

LOW LIABILITY LEVELS

Idaho has a conservative approach to liabilities, with a low burden overall. As of Fitch's 2014 report on state debt and pensions, the combined burden of net tax-supported debt and adjusted unfunded pension obligations that are attributable to the state equaled 3% of personal income, well below the 6.1% median for U.S. states and among the lowest of the states.

Net tax-supported debt totals approximately $807 million as of the most recently available figures, a low burden at 1.3% of 2014 personal income. Debt consists largely of outstanding GARVEEs (78% of net tax-supported debt) and SBA bonds; the latter are the state's primary means of financing public facility capital. SBA bonds are supported by a pledge of annual appropriation. Leases renew automatically absent action by the state at least 10 months prior to scheduled expiration and payments are made within 30 days of the beginning of the fiscal year. A debt service reserve is set aside for each project.

The state's major pension system, covering state and local retirees, has generally remained well funded on an actuarial basis in recent years despite the higher volatility that stems from its longstanding practice of not smoothing assets. Amortization is maintained at 25 years and employer contributions are statutorily fixed; although the latter was recently increased, actual contributions have been slightly below actuarially-determined levels in recent years.

As of its 2014 valuation, system assets covered 92.9% of liabilities on a funding basis and 94.9% based on GASB statement 67. Using Fitch's more conservative 7% discount rate (versus the 7.5% rate used by the system for funding) would lower the funded ratio to a still above-average 88.1%.

ECONOMIC GAINS ACCELERATE

Idaho enjoyed two decades of rapid economic growth in the 1990s and 2000s, driven by a rising population and the growth of construction, technology and other service sectors alongside the state's traditional strengths in agriculture and mining. Although the recession severely affected its fastest growing sectors, the economy since then has gradually accelerated and most measures of growth are again exceeding national averages.

Employment gains have exceeded the nation's since 2012. State non-farm payrolls grew by 1.9% and 2.5% in 2012 and 2013 respectively, ahead of national growth rates of 1.7% in both years. Employment rose another 2.7% in 2014, compared to 1.9% reported nationally. Idaho's May 2015 employment is up 2.7% over May 2014, compared to 2.2% for the same period nationally. Unemployment in the state has steadily declined, with the May 2015 level at 3.8%, or 70% of the U.S. rate.

Idaho's personal income level is among the lowest of the states, with 2014 per capita personal income at 81.4%, ranked 47th. Personal income has grown rapidly in recent years, with 2014 preliminary personal income up 5.3%, vs. 3.9% nationally.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Secondary Analyst
Eric Kim
Director
+1-212-908-0241

Committee Chairperson
Karen Krop
Senior Director
+1-212-908-0661

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com; Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's report 'Tax-Supported Rating Criteria', this action was additionally informed by information from IHS Global Insight.

Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 07 Jan 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=846969
U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033